

AKRON-FAIRGROVE DISTRICT SCHOOLS

Fairgrove, Michigan

REPORT ON FINANCIAL STATEMENTS

(with additional information)

June 30, 2005

TABLE OF CONTENTS

	<u>Page Number</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - viii
INDEPENDENT AUDITOR'S REPORT	1 & 2
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Balance Sheet - Governmental Funds	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	6
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	7
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	8
Statement of Fiduciary Net Assets	9
Statement of Changes in Fiduciary Net Assets	10
Notes to Financial Statements	11 - 22
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule - All Major Funds	23
ADDITIONAL INFORMATION	
Nonmajor Governmental Fund Types	
Combining Balance Sheet	24
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	25

TABLE OF CONTENTS

	<u>Page Number</u>
General Fund:	
<i>Combined Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual (GAAP Basis) - Governmental Funds</i>	26 & 27
<i>Schedule of Revenues and Other Financing Sources Compared to Budget</i>	28
<i>Schedule of Expenditures and Other Financing Uses Compared to Budget</i>	29 - 34
Special Revenue Funds:	
<i>Combining Balance Sheet</i>	35
<i>Combining Statement of Revenues, Expenditures and Changes in Fund Balance</i>	36
Debt Service Fund:	
<i>Combining Balance Sheet</i>	37
<i>Combining Schedule of Revenues, Expenditures, and Changes In Fund Balances</i>	38
Fiduciary Funds:	
<i>Trust and Agency Funds: Combining Balance Sheet</i>	39
<i>Permanent Fund Balance Sheet</i>	40
<i>Permanent Fund Schedule of Revenues, Expenditures and Changes in Fund Balances</i>	41
<i>Student Activities Fund Schedule of Receipts, Disbursements and Changes in Balances</i>	42
<i>Schedule of Bonded Debt - Durant Bonds</i>	43
<i>Schedule of Bonded Debt - 1999 Debt</i>	44
<i>Schedule of Bonded Debt - 2005 Debt</i>	45
<i>Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Governmental Auditing Standards</i>	46

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005

This section of the 2005 annual financial report presents our discussion and analysis of the School District's financial performance during the school year ended June 30, 2005. The intent of this discussion and analysis is to provide, in layman's terms, a look at the district's performance and past and current position. Readers should also review the transmittal letter, notes to the financial statements and financial statements to enhance their understanding of the district's financial performance.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Using this Annual Report

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

Financial Section

- Basic Financial Statements
 - District-wide Financial Statements
 - Fund Financial Statements
 - Fiduciary Fund
 - Notes to Financial Statements
- Required Supplemental Information
 - Budgetary Comparison Schedules

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2005

Reporting the School District as a Whole – District-wide Financial Statements

The district-wide financial statements are new to our district. One of the most frequent and important question asked about our School District is, "As a whole, what is the School District's financial condition as a result of this year's activities?" The first two statements in the School District's financial statements are the Statement of net assets and the statement of activities. These two statements report information on the School District as a whole because they include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Akron-Fairgrove School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The School District's operating results come from the relationship between the revenues and expenses. Our School District's goal is not to generate profits, as do commercial entities, but is to provide services to our students. To assess the overall health of the School District, there are many non-financial factors such as the quality of education provided, along with the safety of our schools.

In the District-wide statements, the district's activities are classified as governmental activities. The District's activities include regular and special education, support services, community services, transportation, food service, and athletics. Property taxes, State aid, State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The fund financial statements do not report the School District as a whole; instead the fund financial statements provide detailed information about the District's most significant funds. The School District establishes funds that comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The General Fund, Debt Retirement Fund and the Capital Projects Fund are the District's major funds, which includes the instructional student and instructional support activities. There are additional funds that the School District also establishes to help it control and manage money for particular purposes, such as the Athletic Funds, Food Services Funds, and Student Activities Funds. Funds need to be established to show that it's meeting legal responsibilities for certain taxes, grants, and other money including the 1999 Bond Issue, which funded the voter-approved capital projects. The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual method of accounting, which measures cash and all

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2005

other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future to finance the School District's programs

In the fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District acts as the trustee for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the School District as a Whole

The statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2004 and June 30, 2005.

Table 1 Condensed Statement of Net Assets	<u>Governmental Activities</u>	
	2004	2005
Current assets	\$1,270,750	\$1,713,444
Noncurrent assets	<u>6,057,108</u>	<u>6,193,748</u>
Total assets	7,327,858	7,907,192
Current liabilities	561,036	638,423
Noncurrent liabilities	<u>5,116,797</u>	<u>5,692,959</u>
Total liabilities	5,677,833	6,331,382
Net assets		
Invested in capital assets – Net of related debt	882,538	354,178
Restricted	249,218	149,462
Unrestricted	<u>518,269</u>	<u>1,072,170</u>
Total net assets	\$1,650,025	\$1,575,810
Total Net Assets and Liabilities	\$7,327,858	\$7,907,192

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2005

The statement of activities shows the results of this year's operations for Akron-Fairgrove District Schools as a whole. Table 2 shows the changes in net assets of the School District as of June 30, 2004 and June 30, 2005.

Table 2		
Statement of Net Assets from Operating Results		
	Governmental Activities	
	2004	2005
Revenues		
Program revenues:		
Charges for services	\$ 66,636	\$54,413
Operating grants & Other Transactions	348,668	248,806
General revenues:		
Property taxes	587,843	599,774
State aid	2,954,836	2,804,433
Other	65,453	61,066
Total revenues	\$4,023,436	\$3,768,492
Expenses		
Instruction	2,186,718	1,859,275
Support services	1,333,789	1,337,076
Community services	4,906	11,275
Food Services	151,237	143,531
Athletics	123,395	112,792
Interest on long-term debt	293,997	173,203
Unallocated depreciation	206,592	205,555
Total Expenses	\$4,300,634	\$3,842,707
Increase (Decrease) in Net Assets	(\$277,198)	\$(74,215)

The beginning net assets of the district were \$1,650,025, the ending net assets were \$1,575,810, the net assets of the District decreased by \$74,215 during 2004/2005 year. Table 2 shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements, provides greater detail on the District's annual activity.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2005

Financial analysis of the School District's Funds

The District uses funds to help it control and manage money for particular purposes. The reader can look at these funds to help determine whether the Akron-Fairgrove School District is being held accountable for the resources taxpayers and others provide to it, and it may give them insight in the School District's overall financial health.

Table 2 shows the breakdown of the sources of revenue for the District. A substantial portion (74%) of the District's revenues is received from State sources, which means that the financial stability of the District rests primarily with the economic health of the State of Michigan.

Table 2 shows that the 90.1% of the District's resources are spent on instruction services, instructional support services, and food & athletic services. Another 4.5% is spent on interest, while 5.4% is spent for depreciation.

The financial performance of the district as a whole is reflected in its governmental funds. As the School District completed the 2004/2005 school year, the governmental funds reported a combined fund balance of \$1,331,455. The Fiduciary Funds had a balance of \$9,717.

Factors Increasing Fund Equity

- ◆ *Debt Fund Equity* – Increased \$47,170.

Factors Decreasing Fund Equity

- ◆ *General Fund Equity* – Decreased \$124,236.

Grants – The District received grants for professional development, parent programs, at risk, and literacy programs. These help to offset the cost of instructional budget items normally paid from fund equity.

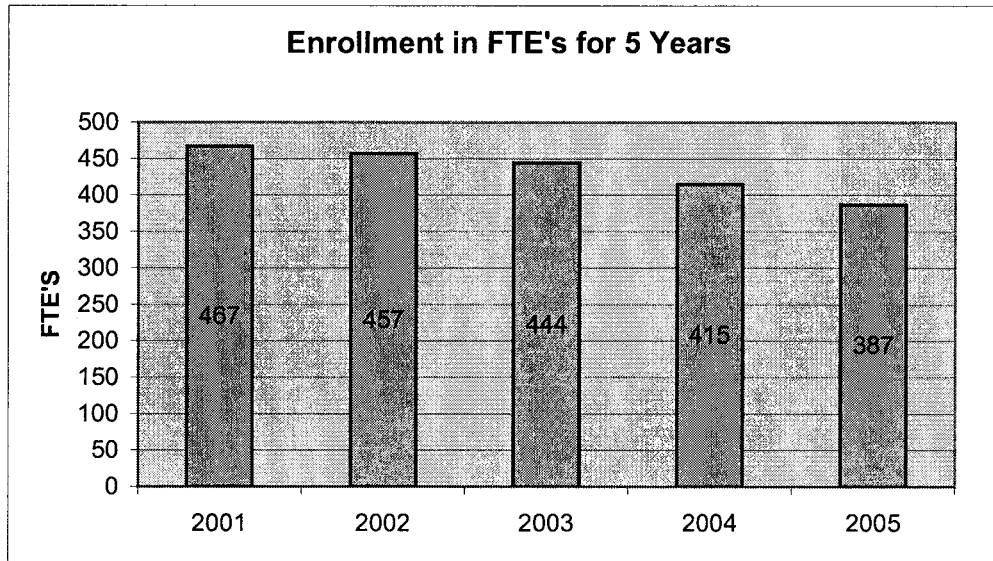
- ◆ *Food Service Fund Equity* – Decreased \$11,519.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2005

◆ *Student Enrollment*

The chart below shows the steady decline in enrollment for the past 5 years. There was a decline of 28 students between 2004 and 2005 with state aid at \$6,700 per student this is a loss of revenue of \$187,600.



Budget vs. Actual

The General fund had a budget deficit of \$92,007 but actually had a deficit of \$124,236: which is a budget variance of \$32,229.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the School District revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. The final amendment to the budget was actually adopted just before the year-end, along with the new adopted budget for the upcoming school year.

Budget Amendment 04/05

The increase in revenue this year between the beginning budget and the final amended budget totaled \$184,124, with state revenues of \$162,707 being the largest item.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2005

On the expenditure side you will notice relatively minor differences. The expenditures increased by \$32,041 between the beginning budget and the final amended budget.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2005, the School District had \$8,889,171 invested in a broad range of capital assets. The District had no capital addition for the year.

The District's capital assets at year-end are outlined in Table 3.

Table 3		
	Governmental Activities	
	<u>2004</u>	<u>2005</u>
Buildings	\$7,774,092	\$7,774,092
Buses	346,359	346,359
General Equipment	119,581	119,581
Playground, Athletic, Site Improvement	477,281	477,281
Technology	<u>171,858</u>	<u>171,858</u>
Total	<u>\$8,889,171</u>	<u>\$8,889,171</u>

The District's net capital assets show a decline of \$205,555 from 2004, this is a result of depreciation in the amount of \$205,555 and nothing was spent on new capital assets. Depreciation is taken on the assets using the Straight-line method of depreciation.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2005

Debt Administration

As of June 30, 2005 the District had debt on the financial statements for Durant bonds with a remaining balance of \$24,570. These are self-liquidating bonds issued by the State of Michigan to fund a special education lawsuit by Michigan school districts. Payment of principal and interest on the bonds is made directly to the State of Michigan. The District has pledged and assigned to bondholders all rights to state aid payments as security for the bond.

As of June 30, 2005 the District had debt on the financial statements for the unrefunded portion of the 1999 Building and Site Bonds in the amount of \$595,000. These bonds will mature from May 1, 2006 through November 1, 2009.

As of June 30, 2005 the District had debt on the financial statements for the 2005 Refunding Bonds in the amount of \$4,595,000. These bonds will mature from May 1, 2006 through May 1, 2025.

As of June 30, 2005 the District had debt on the financial statements for the 2005 QZAB Bond in the amount of \$625,000. This bond will mature in 2020.

As of June 30, 2005 the District had compensated absences, which include accumulated sick and vacation pay, totaling \$58,862.

We present more detailed information about our long-term liabilities in the notes to financial statements.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Central Office Bookkeeper, Akron-Fairgrove District Schools, 2800 N. Thomas Road, Fairgrove, Michigan, 48733, and telephone number (989) 693-6163.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

July 14, 2005

INDEPENDENT AUDITOR'S REPORT

Board of Education
Akron-Fairgrove District Schools
Fairgrove, Michigan 48733

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Akron-Fairgrove District Schools, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the primary government of Akron-Fairgrove District Schools as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2005 on our consideration of Akron-Fairgrove District Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i through viii and 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Akron-Fairgrove District Schools
July 14, 2005

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Akron-Fairgrove District Schools' basic financial statements. The additional information on pages 24 to 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BASIC FINANCIAL STATEMENTS

AKRON-FAIRGROVE DISTRICT SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2005

	GOVERNMENTAL ACTIVITIES
CURRENT ASSETS	
Cash and equivalents	\$ 1,126,176
Investments	77,168
Due from other governmental units	508,475
Property taxes receivable	1,625
TOTAL CURRENT ASSETS	1,713,444
NONCURRENT ASSETS	
Deferred amount on bond refunding	342,195
Capital assets	8,889,171
Less accumulated depreciation	(3,037,618)
TOTAL NONCURRENT ASSETS	6,193,748
TOTAL ASSETS	\$ 7,907,192
 <u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 33,301
Accrued salaries	221,117
Accrued benefits	80,701
Accrued interest	52,586
Accrued payroll taxes	16,915
Deferred revenue	28,330
Retirement incentives payable	-
Current portion of long term debt	205,473
TOTAL CURRENT LIABILITIES	638,423
NONCURRENT LIABILITIES	
Noncurrent portion of long term debt	5,634,097
Noncurrent portion of compensated absences	58,862
TOTAL NONCURRENT LIABILITIES	5,692,959
NET ASSETS	
Invested in capital assets, net of related debt	354,178
Restricted for debt service	149,462
Unrestricted	1,072,170
TOTAL NET ASSETS	1,575,810
TOTAL LIABILITIES AND NET ASSETS	\$ 7,907,192

The accompanying notes are an integral part of the financial statements.

AKRON FAIRGROVE SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 1,859,275		\$ 98,297	\$ (1,760,978)
Support services	1,337,076		65,532	(1,271,544)
Community services	11,275			(11,275)
Food services	143,531	\$ 40,232	84,977	(18,322)
Athletics	112,792	14,181		(98,611)
Interest and costs on long-term debt	173,203			(173,203)
Unallocated depreciation	205,555			(205,555)
Total governmental activities	<u>\$ 3,842,707</u>	<u>\$ 54,413</u>	<u>\$ 248,806</u>	<u>\$ (3,539,488)</u>
General revenues:				
Property taxes, levied for general purposes				\$ 175,311
Property taxes, levied for debt service				424,463
State sources				2,804,433
Investment revenue				10,129
Transfers from other districts				13,520
Miscellaneous				37,417
Total general revenue				<u>3,465,273</u>
Change in net assets				(74,215)
Net assets, beginning of year				<u>1,650,025</u>
Net assets, end of year				<u>\$ 1,575,810</u>

The accompanying notes are an integral part of the financial statements.

AKRON-FAIRGROVE DISTRICT SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	GENERAL FUND	DEBT RETIREMENT	CAPITAL PROJECTS	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
CURRENT ASSETS:					
Cash and equivalents	\$ 291,322	\$ 202,048	\$ 625,000	\$ 7,806	\$ 1,126,176
Investments	77,168				77,168
Due from other governmental units	507,078			1,397	508,475
Due from other funds	1,628			-	1,628
TOTAL ASSETS	\$ 877,196	\$ 202,048	\$ 625,000	\$ 9,203	\$ 1,713,447
LIABILITIES AND FUND BALANCE					
LIABILITIES:					
Accounts payable	\$ 33,301				\$ 33,301
Benefits payable	48,298				48,298
Deferred revenue	28,330				28,330
Due to other funds	-			\$ 1,628	1,628
Retirement payable	32,403				32,403
Salaries payable	221,117				221,117
Accrued payroll taxes	16,915				16,915
TOTAL LIABILITIES	380,364			1,628	381,992
FUND BALANCE:					
Reserved for debt service		\$ 202,048			202,048
Unreserved:					
Designated for capital expenditures			\$ 625,000		625,000
Undesignated	496,832			7,575	504,407
TOTAL FUND BALANCE	496,832	202,048	625,000	7,575	1,331,455
TOTAL LIABILITIES AND FUND BALANCE	\$ 877,196	\$ 202,048	\$ 625,000	\$ 9,203	\$ 1,713,447

The accompanying notes are an integral part of the financial statements.

AKRON-FAIRGROVE DISTRICT SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2005

Total Fund Balances - Governmental Funds \$ 1,331,455

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is:	8,889,171
Accumulated depreciation is:	(3,037,618)

Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds payable:	(5,839,570)
Deferred amount on bond refunding	342,195
Compensated absences:	(58,862)
Retirement incentives payable:	-
Accrued interest is not included as a liability in governmental funds; it is recorded when paid:	(52,586)

Balance of taxes receivable at 6/30/05 less allowance for doubtful accounts, expected to be collected after September 1, 2005	1,625
---	-------

Net Assets of Governmental Activities \$ 1,575,810

The accompanying notes are an integral part of the financial statements.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds For the Year Ended June 30, 2005

	GENERAL FUND	DEBT RETIREMENT	CAPITAL PROJECTS	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Local sources	\$ 219,562	\$ 427,317		\$ 54,479	\$ 701,358
State sources	2,797,696	-		6,737	2,804,433
Federal sources	163,829			84,977	248,806
Transfers from other districts	13,520				13,520
TOTAL REVENUES	3,194,607	427,317	-	146,193	3,768,117
EXPENDITURES					
Instruction	1,866,530				1,866,530
Supporting services	1,340,185				1,340,185
Community services	11,275				11,275
Food services				143,531	143,531
Athletic services				112,792	112,792
Other expenditures					-
Debt service:					-
Principal redemption		115,000			115,000
Interest and fiscal charges		163,895			163,895
TOTAL EXPENDITURES	3,217,990	278,895	-	256,323	3,753,208
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(23,383)	148,422	-	(110,130)	14,909
OTHER FINANCING SOURCES (USES)					
Bond proceeds - QZAB			\$ 625,000		625,000
Proceeds from bond refunding		4,595,000			4,595,000
Premium received on bond sale		82,226			82,226
Payment to bond escrow agent		(4,782,195)			(4,782,195)
Payments for premiums and discounts		(37,325)			(37,325)
Bond issuance costs		(53,298)			(53,298)
Fund transfers in				100,853	100,853
Fund transfers out	(100,853)				(100,853)
TOTAL OTHER FINANCING SOURCES (USES)	(100,853)	(195,592)	625,000	100,853	429,408
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(124,236)	(47,170)	625,000	(9,277)	444,317
FUND BALANCE AT BEGINNING OF YEAR	621,068	249,218	-	16,852	887,138
FUND BALANCE AT END OF YEAR	\$ 496,832	\$ 202,048	\$ 625,000	\$ 7,575	\$ 1,331,455

The accompanying notes are an integral part of the financial statements.

AKRON-FAIRGROVE DISTRICT SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2005

Total net change in fund balances--governmental funds	\$ 444,317
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:	
Depreciation expense	(205,555)
Capital outlay	-
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable at the beginning of the year	51,674
Accrued interest payable at the end of the year	(52,586)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	115,000
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortization in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is as follows:	
Proceeds from sale of QZAB bonds	(625,000)
Proceeds from sale of refunding bonds	(4,595,000)
Payment to bond escrow agent	4,440,000
Deferred amount on bond refunding	342,195
Compensated absences are reported on the accrual method in the statement of activities and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued absences at the beginning of the year	57,227
Accrued absences at the end of the year	(58,862)
Compensated retirement incentives are reported on the accrual method in the statement of activities and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued retirement incentives at the beginning of the year	12,000
Accrued retirement incentives at the end of the year	-
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Accrued revenue at the beginning of the year	(1,250)
Accrued revenue at the end of the year	1,625
Change in net assets of governmental activities	<u>\$ (74,215)</u>

The accompanying notes are an integral part of the financial statements.

AKRON-FAIRGROVE DISTRICT SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

	<u>PRIVATE- PURPOSE TRUST</u>	<u>AGENCY FUNDS</u>
CURRENT ASSETS		
Cash		\$ 33,516
Investments	<u>\$ 9,717</u>	
<i>TOTAL ASSETS</i>	<u><u>\$ 9,717</u></u>	<u><u>\$ 33,516</u></u>
LIABILITIES		
Due to student organizations		\$ 33,516
<i>TOTAL LIABILITIES</i>	<u>-</u>	<u>33,516</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 9,717</u>	
<i>TOTAL NET ASSETS</i>	<u><u>\$ 9,717</u></u>	<u><u>\$ 33,516</u></u>

The accompanying notes are an integral part of the financial statements.

AKRON-FAIRGROVE DISTRICT SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

	PRIVATE- PURPOSE TRUST
ADDITIONS	
Interest earnings	\$ 188
Donations	<u>-</u>
Total additions:	<u>188</u>
DEDUCTIONS	
Scholarships awarded	<u>548</u>
CHANGE IN NET ASSETS	<u>(360)</u>
NET ASSETS	
Beginning of year	<u>10,077</u>
End of year	<u><u>\$ 9,717</u></u>

The accompanying notes are an integral part of the financial statements.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Akron-Fairgrove District Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY:

The Akron-Fairgrove District Schools (the "District") is governed by the Akron-Fairgrove District Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as general revenues.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

OTHER NON-MAJOR FUNDS

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Foundation Revenue:

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005 the foundation allowance was based on the pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October, 2004 - August, 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

State Categorical Revenue:

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Federal Revenue:

Expenditure-driven grants are recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION (Continued):

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation of \$93,491,024:

<u>FUND</u>	<u>MILLS</u>
General Fund – Non Homestead	18.00
Debt Service Fund	4.50

On June 9, 2003 voters of the District approved the 18.00 mill levy for the years 2004-2013.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY (Continued):

4. Inventories and Prepaid Expenditures.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$2,500. Group purchases are evaluated on a case-by-case basis.

6. Compensated Absences.

Accumulated vacation and sick pay amounts that are expected to be liquidated with expendable available resources are recorded. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

It is the policy of the District that upon the death or retirement or layoff of a teacher from the district, the Board shall pay to the teacher, or his/her estate, a sum equal to \$43.00 for each unused accumulated sick day, up to a maximum of 180 days.

7. Unemployment Insurance.

The District reimburses the Michigan Employment Security Agency (MESA) for the actual amount of unemployment benefits disbursed by the MESA on behalf of the District. Billings received for amounts paid by the MESA through June 30, are accrued, if material.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

8. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Memorandum Only - Total Column.

The total column on the combined general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis and do not represent consolidated financial information. Data in these columns do not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

10. Use of Estimates.

The process of preparing general purpose financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balances - budget and actual (GAAP Basis) - general, special revenue and debt service funds.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK:

As of June 30, 2005, the District had the following investments.

Investment Type	Fair value	(Years)	Rating	%
MILAF External Investment pool -MIMAX	86,884	0.0027	AAAm	100.0%
Total fair value	<u>\$ 86,884</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2005, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$1,042,057 of the District's bank balance of \$1,265,466 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counter-party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK, (Continued):

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$33,516	\$ 1,159,692
Investments - including fiduciary funds of \$9,717	86,885
	<u>\$ 1,246,577</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 33,516
Investments - Private Purpose Trust Fund	9,717
Cash - District wide	1,126,176
Investments - District wide	77,168
	<u>\$ 1,246,577</u>

NOTE 4 – LONG-TERM DEBT:

The following is a summary of the serial bonds of the school district for the year ended June 30, 2005:

	<u>SERIAL BONDS</u>
Balance payable - July 1, 2004	\$5,174,570
1999 School Building and Site Bonds paid	(115,000)
Proceeds from Bond Refunding	4,595,000
Payments to Bond Refunding agent for bond payments	(4,440,000)
Deferred amount on bond refunding	(342,195)
Proceeds from QZAB Bond	<u>625,000</u>
Balance payable June 30, 2005	\$5,497,375

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 4 – LONG-TERM DEBT, (Continued):

As of June 30, 2005, the school district had the following outstanding bonds payable:

2005 QZAB Bond-To be in 15 equal annual installments of \$33,649. This bond is interest free.	\$ 625,000
1999 School Building and Site Bonds to furnish and remodel existing equipment; 5.50% interest.	595,000
1998 Durant Bonds; 8.00% interest.	24,570
Deferred amount on bond refunding	(342,195)
2005 Refunding Bonds; interest from 3.0% to 5.0%. The 2005 Refunding Bonds were authorized by the Board of Education, by resolutions adopted on September 13, 2004 and March 21, 2005 for the purpose of refunding a portion of a prior bond issue of the School District. The Bonds will pledge the full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the School District without limitation as to rate or amount.	<u>4,595,000</u>
Total	\$5,497,375

The annual requirements to amortize long-term debt outstanding as of June 30, 2005 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2006	\$ 205,473	\$ 252,548	\$ 458,021
2007	213,616	227,642	441,258
2008	223,709	218,624	442,333
2009	233,806	209,251	443,057
2010	243,908	199,294	443,202
2011-2015	1,345,723	853,139	2,198,862
2016-2020	1,628,335	566,920	2,195,255
2021-2025	<u>1,745,000</u>	<u>239,123</u>	<u>1,984,123</u>
	5,839,570	2,766,541	8,606,111
Deferred amount on bond refunding	(342,195)		(342,195)
Accumulated compensated absences	<u>58,862</u>	<u>-</u>	<u>58,862</u>
TOTALS	\$5,556,237	\$2,766,541	\$8,322,778

During the year ended June 30, 2005 the District financed the 1999 bonds. New general obligation bonds were issued at a premium of \$82,226 after paying issuance costs of \$106,031, the net proceeds were \$4,571,195. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are paid off on May 1, 2022. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$211,001.

Interest expense (all funds) for the year ended June 30, 2005 was \$173,203.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2005 were 12.99% for July 1 through September 30, 2004 and 14.87% for October 1 through June 30, 2005. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District's contribution to MPERS for the year ended June 30, 2005, 2004, and 2003 were \$271,279, \$279,477, and \$275,883 equal to the required contributions for the years.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other post-employment benefits - Under the MPERS' Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE 6 - OPERATING LEASES:

The School District entered into a contract to lease Office Data Processing Equipment beginning July 30, 2002 for 66 months, at a cost of \$13,500 per year.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2005

NOTE 7 - RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors & omissions.

NOTE 8 – DUE TO AND FROM OTHER FUNDS:

Due to and from other funds balances at June 30, 2005 are as follows:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General Fund	\$1,628	
Special Revenue Fund:		
Food Service	_____	<u>\$1,628</u>
Total	\$1,628	\$1,628

NOTE 9 – TRANSFERS:

The general fund transferred \$100,853 to the athletic fund during the current fiscal year.

NOTE 10 – CAPITAL PROJECTS FUND:

On June 28, 2005 the District borrowed \$625,000 through the Qualified Zone Academy Bond Program for the purpose of remodeling, equipping, reequipping, furnishing and re-furnishing school buildings; acquiring school buses; and developing and improving athletic facilities, playgrounds and sites. The bonds are to be repaid with fifteen annual installments of \$33,649 commencing on June 28, 2006 being paid into a Trust Account to provide the funds to repay the bond principal in one payment of \$625,000 on June 28, 2020. The bonds are interest-free and the balance on June 30, 2005 is \$625,000. The balance in this trust account at June 30, 2005 is \$0.

REQUIRED SUPPLEMENTARY INFORMATION

AKRON-FAIRGROVE DISTRICT SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	BUDGET			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Local sources	\$ 220,326	\$ 257,247	\$ 219,562	\$ (37,685)
State sources	2,621,134	2,783,841	2,797,696	13,855
Federal sources	190,327	174,189	163,829	(10,360)
Transfers from other districts	25,790	26,424	13,520	(12,904)
TOTAL REVENUES	3,057,577	3,241,701	3,194,607	(47,094)
EXPENDITURES:				
Instruction	1,906,954	1,850,765	1,866,530	(15,765)
Supporting services	1,261,413	1,368,903	1,340,185	28,718
Community services	5,600	11,755	11,275	480
TOTAL EXPENDITURES	3,173,967	3,231,423	3,217,990	13,433
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(116,390)	10,278	(23,383)	(33,661)
OTHER FINANCING SOURCES (USES):				
Transfer to Other Funds	(127,700)	(102,285)	(100,853)	1,432
TOTAL OTHER FINANCING SOURCES (USES)	(127,700)	(102,285)	(100,853)	1,432
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(244,090)	(92,007)	(124,236)	(32,229)
FUND BALANCE - BEGINNING OF YEAR	621,068	621,068	621,068	-
FUND BALANCE - END OF YEAR	\$ 376,978	\$ 529,061	\$ 496,832	\$ (32,229)

See the accompanying notes.

ADDITIONAL INFORMATION

AKRON-FAIRGROVE DISTRICT SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
June 30, 2005

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2005</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 7,806	\$ 7,806
Due from other governmental units	1,397	1,397
Due from other funds		-
TOTAL ASSETS	<u>\$ 9,203</u>	<u>\$ 9,203</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES:		
Due to other funds	<u>\$ 1,628</u>	<u>\$ 1,628</u>
 FUND BALANCE:		
Unreserved	<u>7,575</u>	<u>7,575</u>
 TOTAL FUND BALANCE	<u>7,575</u>	<u>7,575</u>
 TOTAL LIABILITIES & FUND BALANCE	<u>\$ 9,203</u>	<u>\$ 9,203</u>

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2005

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2005</u>
REVENUES:		
Local sources		
Sales of meals and milk	\$ 40,232	\$ 40,232
Admissions	14,181	14,181
Interest	66	66
Other	-	-
	<u>54,479</u>	<u>54,479</u>
Total local sources		
	<u>54,479</u>	<u>54,479</u>
State sources		
State aid	6,737	6,737
	<u>6,737</u>	<u>6,737</u>
Federal sources		
National School Lunch Program	71,509	71,509
USDA Commodities	13,468	13,468
	<u>84,977</u>	<u>84,977</u>
Total federal sources		
	<u>84,977</u>	<u>84,977</u>
TOTAL REVENUES	<u>146,193</u>	<u>146,193</u>
EXPENDITURES:		
Food services	143,531	143,531
Athletics	112,792	112,792
	<u>256,323</u>	<u>256,323</u>
TOTAL EXPENDITURES		
	<u>256,323</u>	<u>256,323</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(110,130)</u>	<u>(110,130)</u>
OTHER FINANCING SOURCES (USES):		
Fund transfers in	100,853	100,853
	<u>100,853</u>	<u>100,853</u>
TOTAL OTHER FINANCING SOURCES (USES)		
	<u>100,853</u>	<u>100,853</u>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>(9,277)</u>	<u>(9,277)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>16,852</u>	<u>16,852</u>
FUND BALANCE - END OF YEAR	<u>\$ 7,575</u>	<u>\$ 7,575</u>

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS) -
GENERAL, SPECIAL REVENUE AND DEBT RETIREMENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Local sources	\$ 257,247	\$ 219,562	\$ (37,685)
State sources	2,783,841	2,797,696	13,855
Federal sources	174,189	163,829	(10,360)
Transfers from other districts	26,424	13,520	(12,904)
TOTAL REVENUES	3,241,701	3,194,607	(47,094)
EXPENDITURES			
Instruction	1,850,765	1,866,530	(15,765)
Supporting services	1,368,903	1,340,185	28,718
Community services	5,112	11,275	(6,163)
Food services			
Athletic services			
TOTAL EXPENDITURES	3,224,780	3,217,990	6,790
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	16,921	(23,383)	(40,304)
OTHER FINANCING SOURCES (USES):			
Fund transfers in			
Fund transfers out	(102,285)	(100,853)	1,432
TOTAL OTHER FINANCING SOURCES (USES)	(102,285)	(100,853)	1,432
EXCESS (DEFICIENCY) OR REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	(85,364)	(124,236)	(38,872)
FUND BALANCE - BEGINNING OF YEAR	621,068	621,068	-
FUND BALANCE - END OF YEAR	\$ 535,704	\$ 496,832	\$ (38,872)

See the accompanying notes.

SPECIAL REVENUE FUND

BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$ 53,830	\$ 54,479	\$ 649
7,679	6,737	(942)
82,697	84,977	2,280
<u>144,206</u>	<u>146,193</u>	<u>1,987</u>
130,149	143,531	(13,382)
113,930	112,792	1,138
244,079	256,323	(12,244)
<u>(99,873)</u>	<u>(110,130)</u>	<u>(10,257)</u>
102,285	100,853	(1,432)
-	-	-
102,285	100,853	(1,432)
<u>2,412</u>	<u>(9,277)</u>	<u>(11,689)</u>
16,852	16,852	-
<u>\$ 19,264</u>	<u>\$ 7,575</u>	<u>\$ (11,689)</u>

AKRON-FAIRGROVE DISTRICT SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
LOCAL SOURCES:			
Property taxes	\$ 171,861	\$ 174,422	\$ 2,561
Delinquent taxes	16,934	514	(16,420)
Interest income	4,696	7,209	2,513
Drivers education fees	4,025	3,400	(625)
Transportation reimbursements	43,200	-	(43,200)
Other	16,531	34,017	17,486
Total Local Sources	<u>257,247</u>	<u>219,562</u>	<u>(37,685)</u>
STATE SOURCES:			
Foundation Grant	2,614,182	2,618,984	4,802
Drivers Education	2,522	2,522	-
Michigan school readiness	82,500	87,699	5,199
At Risk	90,981	90,989	8
Durant Funds	-	3,846	3,846
Other	(6,344)	(6,344)	-
Total State Sources	<u>2,783,841</u>	<u>2,797,696</u>	<u>13,855</u>
FEDERAL SOURCES:			
Title I	119,220	112,546	(6,674)
Title V	9,680	1,870	(7,810)
Title II	37,608	37,608	-
Technology Literacy Challenge Grant	6,220	6,220	-
Eisenhower Grant	-	-	-
Voc Ed Basic Grant EDP's	-	-	-
Drug Consortium	-	-	-
Handicapped	531	763	232
Miscellaneous	930	4,822	3,892
Total Federal Sources	<u>174,189</u>	<u>163,829</u>	<u>(10,360)</u>
OTHER TRANSACTIONS:			
Incoming Transfers:			
TISD	12,005	7,375	(4,630)
Other	14,419	6,145	(8,274)
Total Transfers	<u>26,424</u>	<u>13,520</u>	<u>(12,904)</u>
TOTAL REVENUES	<u>\$ 3,241,701</u>	<u>\$ 3,194,607</u>	<u>\$ (47,094)</u>

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
BASIC PROGRAMS:			
AKRON ELEMENTARY:			
Salaries:			
Teachers	\$ 418,749	\$ 421,958	\$ (3,209)
Aides	16,057	15,761	296
Substitutes	12,000	11,777	223
Other professional salaries	6,000	6,000	-
Employee benefits	244,493	242,047	2,446
Purchased services	5,800	4,937	863
Workshops and conferences	150	741	(591)
Teaching supplies & materials	9,900	9,392	508
Capital outlay	-	-	-
Fees & dues	980	979	1
Total Akron Elementary	<u>714,129</u>	<u>713,592</u>	<u>537</u>
SECONDARY:			
Salaries:			
Teachers	465,467	462,524	2,943
Aides	20,482	20,215	267
Substitutes	16,000	16,600	(600)
Other professional salaries	15,707	15,707	-
Employee benefits	230,193	230,363	(170)
Travel, workshops & conferences	250	831	(581)
Purchased services	10,305	8,787	1,518
Teaching supplies & materials	10,870	10,923	(53)
Capital outlay	1,430	1,427	3
Fees & dues	1,950	1,913	37
Total Secondary	<u>772,654</u>	<u>769,290</u>	<u>3,364</u>

AKRON-FAIRGROVE DISTRICT SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
BASIC PROGRAMS, (Continued):			
BASIC PROGRAMS/ ADDED NEEDS:			
Title I	\$ 111,898	\$ 112,546	\$ (648)
At Risk			
Salaries & benefits	79,688	74,424	5,264
Purchased services	-	23,251	(23,251)
Teaching supplies & materials	-	-	-
Special Education:			
Salaries:			
Teachers	105,272	105,457	(185)
Aides	1,500	1,500	-
Substitutes	3,495	3,760	(265)
Employee benefits	59,854	60,375	(521)
Travel, workshops & conferences	250	312	(62)
Teaching supplies & materials	2,025	2,023	2
Fees & dues	-	-	-
Total Added Needs	<u>363,982</u>	<u>383,648</u>	<u>(19,666)</u>
TOTAL INSTRUCTION:	<u>\$ 1,850,765</u>	<u>\$ 1,866,530</u>	<u>\$ (15,765)</u>
SUPPORTING SERVICES:			
GUIDANCE SERVICES:			
Salaries:			
Counseling	35,228	10,209	25,019
Truancy	2,300	2,300	-
Employee benefits	700	694	6
Travel, workshops & conferences	100	1,768	(1,668)
Supplies	60	58	2
Fees & dues	131	131	-
Total Guidance Services	<u>38,519</u>	<u>15,160</u>	<u>23,359</u>

AKRON-FAIRGROVE DISTRICT SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
INSTRUCTIONAL STAFF:			
Eisenhower Grant	\$ -	\$ -	\$ -
Career Education	-	-	-
Michigan School Readiness	82,500	87,699	(5,199)
Title V	9,680	1,870	7,810
Title II	41,307	43,829	(2,522)
FFA Grant	-	-	-
DTE Energy Grant	269	269	-
Tech Prep teaching workshops	3,165	3,164	1
Medicaid incentives	-	-	-
Drug education consortium	1,791	1,611	180
District wide testing	1,010	1,000	10
Total Instructional Staff	<u>139,722</u>	<u>139,442</u>	<u>280</u>
LIBRARY & A-V:			
Salaries:			
Librarians	-	-	-
Library aides	11,921	10,474	1,447
Employee benefits	1,512	1,510	2
Purchased service	120	113	7
Supplies & materials	592	626	(34)
Capital outlay	962	958	4
Total Library and A-V	<u>15,107</u>	<u>13,681</u>	<u>1,426</u>

AKRON-FAIRGROVE DISTRICT SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
BOARD OF EDUCATION:			
Salaries:			
Board members	\$ 4,193	\$ 4,193	\$ -
Legal fees	12,000	12,881	(881)
Audit fees	7,750	7,750	-
Workshops & conferences	-	-	-
Advertising	1,000	830	170
Insurance & bonds	-	-	-
Purchased services	26,400	26,367	33
Election expenses	2,000	1,197	803
Miscellaneous supplies	4,200	5,107	(907)
Fees & dues	1,200	1,336	(136)
Capital outlay	-	-	-
Total Board of Education	<u>58,743</u>	<u>59,661</u>	<u>(918)</u>
EXECUTIVE ADMINISTRATION:			
Salaries:			
Superintendent	86,000	86,000	-
Secretarial	40,637	40,095	542
Employee benefits	50,681	47,088	3,593
Workshops & conferences	5,108	5,417	(309)
Purchased services	7,130	3,166	3,964
Office supplies	4,000	3,562	438
Capital outlay	-	-	-
Fees & dues	1,810	1,803	7
Total Executive Administration	<u>195,366</u>	<u>187,131</u>	<u>8,235</u>
SCHOOL ADMINISTRATION:			
Salaries:			
Principals	129,051	129,051	-
Secretarial	44,615	40,218	4,397
Employee benefits	78,317	78,979	(662)
Travel, workshops & conferences	1,112	1,080	32
Office supplies	3,000	2,894	106
Purchased services	525	511	14
Capital outlay	-	-	-
Fees & dues	790	790	-
Total School Administration	<u>257,410</u>	<u>253,523</u>	<u>3,887</u>

AKRON-FAIRGROVE DISTRICT SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
FISCAL & OTHER BUSINESS SERVICES:			
Bookkeeper	\$ 37,545	\$ 37,706	\$ (161)
Employee benefits	15,436	15,472	(36)
Data processing	5,000	4,255	745
Insurance & bonds	2,563	2,563	-
Miscellaneous	6,700	27,799	(21,099)
Total Fiscal & Other Business Services	<u>67,244</u>	<u>87,795</u>	<u>(20,551)</u>
OPERATION & MAINTENANCE:			
Custodial wages	155,843	145,478	10,365
Employee benefits	89,804	89,595	209
Travel	400	280	120
Telephone	10,000	10,148	(148)
Utilities	151,046	150,606	440
Maintenance of equipment	16,200	24,969	(8,769)
Purchased services	2,603	2,705	(102)
Supplies	21,400	19,571	1,829
Capital outlay	-	-	-
Fees & dues	-	-	-
Total Operation & Maintenance	<u>447,296</u>	<u>443,352</u>	<u>3,944</u>
PUPIL TRANSPORTATION:			
Salaries:			
Supervisor	8,615	8,612	3
Vehicle operator	46,176	46,990	(814)
Special trips	13,864	11,010	2,854
Employee benefits	21,701	20,409	1,292
Travel, workshops & conferences	7,600	550	7,050
Purchased services	30,475	30,445	30
Gas & oil	20,000	21,445	(1,445)
Repairs	485	510	(25)
Supplies & materials	580	469	111
Capital outlay	-	-	-
Total Pupil Transportation	<u>149,496</u>	<u>140,440</u>	<u>9,056</u>
TOTAL SUPPORTING SERVICES	<u>\$ 1,368,903</u>	<u>\$ 1,340,185</u>	<u>\$ 28,718</u>

AKRON-FAIRGROVE DISTRICT SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
COMMUNITY SERVICES:			
DRIVER EDUCATION:			
Purchased service	\$ 4,012	\$ 4,011	\$ 1
Vehicle rental and repairs	400	393	7
Auto Insurance	400	400	-
Teaching supplies	-	-	-
Gas, oil, and grease	300	-	300
	<u>5,112</u>	<u>4,804</u>	<u>308</u>
Total Driver Education			
	<u>5,112</u>	<u>4,804</u>	<u>308</u>
LATCH KEY:			
Professional salary	-	-	-
Aide salary	5,100	4,907	193
Employee benefits	1,078	1,100	(22)
Supplies	465	464	1
Other	-	-	-
	<u>6,643</u>	<u>6,471</u>	<u>172</u>
Total Latch Key			
	<u>6,643</u>	<u>6,471</u>	<u>172</u>
TOTAL COMMUNITY SERVICES	<u>11,755</u>	<u>11,275</u>	<u>480</u>
OUTGOING TRANSFERS AND OTHER:			
Transfer to the Student Activities Fund	-	-	-
Transfer to Athletic Fund	102,285	100,853	1,432
	<u>102,285</u>	<u>100,853</u>	<u>1,432</u>
TOTAL OUTGOING TRANSFERS AND OTHER			
	<u>102,285</u>	<u>100,853</u>	<u>1,432</u>
TOTAL EXPENDITURES	<u>\$ 3,333,708</u>	<u>\$ 3,318,843</u>	<u>\$ 14,865</u>

AKRON-FAIRGROVE DISTRICT SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL</u>
<i>ASSETS</i>			
Cash and investments	\$ 5,464	\$ 2,342	\$ 7,806
Due from other governmental units	<u>1,397</u>	<u></u>	<u>1,397</u>
<i>TOTAL ASSETS</i>	<u><u>\$ 6,861</u></u>	<u><u>\$ 2,342</u></u>	<u><u>\$ 9,203</u></u>
 <i>LIABILITIES & FUND EQUITY</i>			
LIABILITIES:			
Accounts payable			-
Due to other funds	<u>\$ 1,628</u>	<u></u>	<u>\$ 1,628</u>
TOTAL LIABILITIES	<u>1,628</u>	<u>-</u>	<u>1,628</u>
 FUND BALANCE:			
Fund Balance	<u>\$ 5,233</u>	<u>\$ 2,342</u>	<u>\$ 7,575</u>
TOTAL FUND BALANCE	<u>5,233</u>	<u>2,342</u>	<u>7,575</u>
<i>TOTAL LIABILITIES & FUND BALANCE</i>	<u><u>\$ 6,861</u></u>	<u><u>\$ 2,342</u></u>	<u><u>\$ 9,203</u></u>

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>COMBINED</u>
REVENUES:			
Local Sources:			
Sales of meals and milk	\$ 40,232		\$ 40,232
Admissions		\$ 14,181	14,181
Interest	66		66
Other	-		-
	<u>40,298</u>	<u>14,181</u>	<u>54,479</u>
Total Local Sources			
State sources			
State aid	<u>6,737</u>		<u>6,737</u>
Federal sources			
National School Lunch Program	71,509		71,509
USDA Commodities	<u>13,468</u>		<u>13,468</u>
Total Federal Sources	<u>84,977</u>		<u>84,977</u>
TOTAL REVENUES	<u>132,012</u>	<u>14,181</u>	<u>146,193</u>
EXPENDITURES:			
Salaries and wages	57,325	77,471	134,796
Employee benefits	10,457	14,490	24,947
Food and milk	68,799		68,799
Capital Outlay	-		
Supplies and other costs	<u>6,950</u>	<u>20,831</u>	<u>27,781</u>
TOTAL EXPENDITURES	143,531	112,792	256,323
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(11,519)</u>	<u>(98,611)</u>	<u>(110,130)</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in		100,853	100,853
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>(11,519)</u>	<u>2,242</u>	<u>(9,277)</u>
FUND BALANCE AT BEGINNING OF YEAR	16,752	100	16,852
FUND BALANCE AT END OF YEAR	<u>\$ 5,233</u>	<u>\$ 2,342</u>	<u>\$ 7,575</u>

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
DEBT RETIREMENT FUNDS
COMBINING BALANCE SHEET
June 30, 2005

	DURANT DEBT SERVICE	1999 BUILDING BONDS	TOTALS DEBT SERVICE JUNE 30, 2005	2004
<u>ASSETS</u>				
Cash	<u>\$ -</u>	<u>\$ 202,048</u>	<u>\$ 202,048</u>	<u>\$ 249,218</u>
<u>FUND BALANCES</u>				
Fund balances	<u>\$ -</u>	<u>\$ 202,048</u>	<u>\$ 202,048</u>	<u>\$ 249,218</u>

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
DEBT RETIREMENT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005

	DURANT DEBT SERVICE	1999 BUILDING BONDS	TOTALS DEBT SERVICE JUNE 30,	
			2005	2004
REVENUES:				
Local Sources:				
Property taxes		\$ 424,463	\$ 424,463	\$ 411,340
Interest		2,854	2,854	2,587
Total Local Sources	-	427,317	427,317	413,927
State Sources		-	-	-
TOTAL REVENUES	-	427,317	427,317	413,927
EXPENDITURES:				
Debt Service:				
Principal repayment		115,000	115,000	105,000
Interest and other fiscal charges		163,895	163,895	292,990
TOTAL EXPENDITURES	-	278,895	278,895	397,990
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	148,422	148,422	15,937
OTHER FINANCING SOURCES (USES):				
Proceeds from bond refunding		4,595,000	4,595,000	-
Premium received on bond sale		82,226	82,226	-
Payment to bond escrow agent		(4,782,195)	(4,782,195)	-
Payments for premiums and discounts		(37,325)	(37,325)	-
Bond issuance costs		(53,298)	(53,298)	-
TOTAL OTHER FINANCING SOURCES (USES)		(195,592)	(195,592)	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)		(47,170)	(47,170)	15,937
FUND BALANCE - BEGINNING OF YEAR	-	249,218	249,218	233,281
FUND BALANCE - END OF YEAR	\$ -	\$ 202,048	\$ 202,048	\$ 249,218

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
TRUST AND AGENCY FUNDS
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2005

	<u>PERMANENT FUND</u>	<u>STUDENT ACTIVITIES FUND</u>	<u>TOTAL</u>
ASSETS			
Cash		\$ 33,516	\$ 33,516
Investments	\$ 9,717		9,717
TOTAL ASSETS	<u><u>\$ 9,717</u></u>	<u><u>\$ 33,516</u></u>	<u><u>\$ 43,233</u></u>
 LIABILITIES AND FUND EQUITY			
Liabilities:			
Due to student groups		\$ 33,516	\$ 33,516
Total Liabilities	-	33,516	33,516
Fund Balance:			
Fund balance:			
Reserved for scholarships	\$ 9,717		9,717
Total Fund Balance	9,717	-	9,717
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 9,717</u></u>	<u><u>\$ 33,516</u></u>	<u><u>\$ 43,233</u></u>

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
TRUST AND AGENCY FUNDS
PERMANENT FUND
BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2005

	JOY MCCREEDY SCHOLARSHIP TRUST
ASSETS	
Investments	\$ 9,717
TOTAL ASSETS	\$ 9,717
LIABILITIES AND FUND EQUITY	
Liabilities:	
Scholarships payable	-
Fund Balance:	
Fund balance:	
Reserved	\$ 9,717
Total Fund Balance	9,717
TOTAL LIABILITIES AND FUND BALANCE	\$ 9,717

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
TRUST AND AGENCY FUNDS
PERMANENT FUND
SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	JOY MCCREEDY SCHOLARSHIP TRUST
	<hr/>
REVENUES	
Local revenues:	
Interest on Investments	\$ 188
Donation	<hr/>
Total Revenues	<hr/> 188 <hr/>
EXPENDITURES	
Scholarships awarded	<hr/> 548 <hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<hr/> (360) <hr/>
FUND BALANCE AT BEGINNING OF YEAR	<hr/> 10,077 <hr/>
FUND BALANCE AT END OF YEAR	<hr/> \$ 9,717 <hr/> <hr/>

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
TRUST AND AGENCY FUNDS
STUDENT ACTIVITIES FUND
SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGE IN BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	BALANCE JUNE 30, 2004	CASH RECEIPTS	CASH DISBURSEMENTS	BALANCE JUNE 30, 2005
STUDENT ACTIVITIES:				
7th/8th Grade SC	\$ 1,088	\$ 4,611	\$ 4,179	\$ 1,520
AG Science Fund Raiser	339	4,888	5,163	64
Ag Science Scholarship	33	501	500	34
AK-FG Elementary	8,400	18,861	19,023	8,238
Athletic Fund Raiser	209	1,346	60	1,495
Band	14	348	379	(17)
Boys Basketball	-	1,082	677	405
Board of Education	100	-	-	100
Bookstore	1,371	496	-	1,867
Class of 2004	806	-	806	-
Class of 2005	6,042	4,473	10,460	55
Class of 2006	8,358	2,988	4,390	6,956
Class of 2007	766	10,531	4,871	6,426
Class of 2008	-	1,285	110	1,175
Cross Country	-	369	334	35
Girls Basketball	32	1,533	1,544	21
High School Flower Fund	99	370	323	146
High School Miscellaneous	32	150	141	41
High School Principal	183	1,082	1,096	169
JV Boys Basketball	-	120	-	120
Kindergarden/6th Grade SC	219	281	241	259
Library	63	29	-	92
Lock Rental	351	100	75	376
Lunch Account	-	23,089	23,089	-
National Honor Society	21	-	-	21
Spanish Club	353	1,208	1,295	266
Special Account	551	2,974	2,654	871
Special Education	374	-	-	374
Student Council	596	1,995	1,766	825
Vehicle Parking	410	-	30	380
Yearbook	3,627	3,295	5,720	1,202
TOTAL STUDENT ACTIVITIES	\$ 34,437	\$ 88,005	\$ 88,926	\$ 33,516

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
SCHEDULE OF BONDED DEBT - DURANT BONDS
June 30, 2005

\$38,459 Durant Bond issued November 24, 1998:

PRINCIPAL DUE MAY 15	INTEREST DUE MAY 15	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
		JUNE 30	AMOUNT
\$ 8,807	\$ 3,937	2006	\$ 12,744
1,950	750	2007	2,700
2,043	658	2008	2,701
2,140	561	2009	2,701
2,242	459	2010	2,701
2,349	352	2011	2,701
2,461	240	2012	2,701
2,578	122	2013	2,700
\$ 24,570	\$ 7,079		\$ 31,649

The above bond issue bears interest at 8.00%. The bond proceeds were used for roof repairs and partial payment of a bus purchase. The State of Michigan revised the debt repayment schedule during the 2002-2003 school year eliminating the payments for years 2004-2005.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
SCHEDULE OF BONDED DEBT -
1999 SCHOOL BUILDING AND SITE BONDS
June 30, 2005

<u>PAYMENT DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST RATE</u>	<u>INTEREST DUE</u>	<u>TOTAL PAYMENT</u>
11/1/2005			\$ 16,363	\$ 16,363
5/1/2006	\$ 130,000	5.50%	16,363	146,363
11/1/2006			12,788	12,788
5/1/2007	145,000	5.50%	12,788	157,788
11/1/2007			8,800	8,800
5/1/2008	155,000	5.50%	8,800	163,800
11/1/2008			4,537	4,537
5/1/2009	<u>165,000</u>	5.50%	<u>4,537</u>	<u>169,537</u>
	<u>\$ 595,000</u>		<u>\$ 84,976</u>	<u>\$ 679,976</u>

PURPOSE AND SECURITY: The bonds were authorized at an election on September 23, 1999, for the purpose of erecting, furnishing, and equipping additions to and remodeling, refurbishing, and re-equipping school buildings, acquiring and installing educational technology system improvements and developing and improving sites. The Bonds will pledge the full faith, credit and resources of the School District for payment of the principal and interest thereon, and will be payable from ad valorem taxes which may be levied without limitation as to rate or amount as provided by Article IX, Section 6, and Article IX, Section 16, of the Michigan Constitution of 1963.

See the accompanying notes.

AKRON-FAIRGROVE DISTRICT SCHOOLS
SCHEDULE OF BONDED DEBT -
2005 REFUNDING BONDS
June 30, 2005

<u>PAYMENT DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST RATE</u>	<u>INTEREST DUE</u>	<u>TOTAL PAYMENT</u>
11/1/2005			\$ 114,952	\$ 114,952
5/1/2006	\$ 25,000	3.000%	100,933	125,933
11/1/2006			100,558	100,558
5/1/2007	25,000	3.000%	100,558	125,558
11/1/2007			100,183	100,183
5/1/2008	25,000	3.000%	100,183	125,183
11/1/2008			99,808	99,808
5/1/2009	25,000	3.125%	99,808	124,808
11/1/2009			99,418	99,418
5/1/2010	200,000	3.500%	99,418	299,418
11/1/2010			95,917	95,917
5/1/2011	200,000	5.000%	95,917	295,917
11/1/2011			90,918	90,918
5/1/2012	215,000	5.000%	90,918	305,918
11/1/2012			85,542	85,542
5/1/2013	225,000	5.000%	85,542	310,542
11/1/2013			79,918	79,918
5/1/2014	240,000	5.000%	79,918	319,918
11/1/2014			73,917	73,917
5/1/2015	250,000	5.000%	73,917	323,917
11/1/2015			67,668	67,668
05/01/14 - 05/01/25	<u>3,165,000</u>		<u>738,375</u>	<u>3,903,375</u>
	<u>\$ 4,595,000</u>		<u>\$ 2,674,286</u>	<u>\$ 7,269,286</u>

The 2005 Refunding Bonds (the "Bonds") were authorized by the Board of Education of Akron-Fairgrove Schools, County of Tuscola, State of Michigan (the "School District") by resolutions adopted on September 13, 2004 and March 21, 2005 (the "Resolutions") for the purpose of refunding a portion of a prior bond issue of the School District. The Bonds will pledge the full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the School District without limitation as to rate or amount.

See the accompanying notes.



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

July 14, 2005

To the Board of Education
Akron-Fairgrove School District
Fairgrove, MI 48733

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Akron-Fairgrove District Schools as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Akron-Fairgrove District Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Akron-Fairgrove District Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS